

Report of Independent Accountants

To the Management of Qwest Corporation

We have examined Qwest Corporation's ("Qwest" or the "Company") compliance with the payphone call tracking system requirements set forth in Appendix C of the Federal Communications Commission's ("FCC") Report and Order 03-235¹ (the "Order") for the period July 1, 2004 through June 30, 2005 (the "Engagement Period"). Management is responsible for Qwest's compliance with those requirements. Our responsibility is to express an opinion on Qwest's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Qwest's compliance with specified requirements.

Our examination disclosed the following material noncompliance with the Order applicable to Qwest Corporation during the Engagement Period:

The Order requires the completing carrier to put in place adequate and effective business rules for implementing and paying payphone compensation:

- a. For the 3rd quarter of 2004, Qwest omitted some compensable calls due to a faulty indicator in the customer billing system payphone process that resulted in underpayments to some payphone service providers ("PSP"). Upon discovering the error, Qwest paid the PSPs with interest.
- b. For the 3rd quarter of 2004 through the 1st quarter of 2005, Qwest included calls that were subject to a separate compensation agreement between the PSP and Qwest as compensable calls that resulted in overpayments to the PSP.
- c. From the 3rd quarter of 2004 through the 2nd quarter of 2005, Qwest included calls where Qwest was not the completing carrier as compensable calls that resulted in overpayments to PSPs.
- d. Qwest did not include March 2005 payphone data as compensable calls in the calculation of the 1st quarter of 2005 payments to PSPs.

¹ Refers to *In the Matter of The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Report and Order, released October 3, 2003 by the Federal Communications Commission ("FCC") and the Order on Reconsideration released October 22, 2004 by the FCC. The requirements of the Third Payphone Order are set forth in Appendix C of the above referenced Report and Order.

In our opinion, except for the material noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the aforementioned requirements for the Engagement Period.

This report is intended solely for the information and use of Qwest and the parties specified in the Order and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

August 23, 2005



**Report of Management on
Compliance With the Federal Communications Commission's Third Payphone
Order¹**

Management of Qwest Corporation ("Qwest") is responsible for complying with the requirements set forth in Appendix C of FCC 03-235 ("Third Payphone Order") as of the date of this report.

Management has performed an evaluation of Qwest's compliance with the requirements of the Third Payphone Order for the period July 1, 2004 to June 30, 2005 (the "Engagement Period"). Based on this evaluation, we assert that Qwest has complied with the requirements of the Third Payphone Order except as specifically noted in assertion nine:

During the Engagement Period, Qwest complied with the requirements of this order in the following manner:

1. Qwest has developed a system to identify and collect completed coinless access code or subscriber toll-free payphone calls to completion.
 - a. Automated Message Accounting ("AMA"), TOLL, and WATS call detail is extracted daily on six MVS processors from CRIS billing and AMA history files. The daily activity is aggregated throughout the quarter. After the close of the quarter the aggregated detail is matched to an Automated Number Identification ("ANI") master list to filter out non-compensable ANI detail. The selected ANI'S are then matched to a contracted ANI list. Contracted ANI'S are filtered to exclude non-toll free 800 call detail.
 - b. AMA call detail is extracted when the call is made to an 800# company official number that is identified by call code 141 and 142 (payphone call code). The indicator that the call was completed must be present. CC141 is further qualified to only select records with Carrier Identification Code ("CIC") code 0098. CC142 is further qualified to only select records that match the Qwest 800 CALLNET database. These records are then filtered to only select INTRALATA call detail. The last filter is to exclude calls made to a special needs 800 number within Qwest (hearing impaired, etc.)

¹ The "Third Payphone Order" refers to *In the Matter of The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Report and Order, released October 3, 2003 by the Federal Communications Commission ("FCC") and the Order on Reconsideration released October 22, 2004 by the FCC. The requirements of the Third Payphone Order are set forth in Appendix C of the above referenced Report and Order.

- c. WATS call detail is selected when the LATA type indicator is set to INTRALATA and the record is marked as an originating IN-WATS message type. The indicator that the call was completed must be present. In Central and Western CRIS the BOC, carrier id for Qwest must be present ('0000'), and in Eastern CRIS, the Qwest entity code must be present ('010', '011', '012', or '013'). The indicator that the call is a coin originated call must also be present. Lastly, the call must not be made to a special needs 800 number within Qwest (hearing impaired, etc.).
 - d. TOLL call detail records are extracted when they are identified as 800 service line, directory assistance, or toll usage calls. All data must have the LATA type indicator set to INTRALATA. The indicator that the call was completed must be present. In Central and Western CRIS the BOC, carrier id must be present ('0000'), and in Eastern CRIS, the Qwest entity code must be present ('010', '011', '012', or '013'). The indicator that the call is a coin originated call must be present and the call must not be made to a special needs 800 number within Qwest (hearing impaired, etc.).
- 2. Qwest has designated persons, responsible for tracking, compensating, and resolving disputes concerning completed payphone calls or has contracted with Billing Concepts, a third-party clearinghouse to perform these procedures.
- 3. Qwest has developed data monitoring procedures to track completed payphone records from call origination through the payphone compensation process.
- 4. Qwest has established internal protocols to ensure that any software, personnel and network changes do not adversely affect Qwest's ability to track payphone call records.
- 5. Qwest created a quarterly compensable payphone call file by applying logic that matched call detail records against payphone identifiers to call data to identify and select compensable payphone records.
- 6. Qwest has developed procedures to provide a compensable payphone call file to Billing Concepts for purposes of creating the following required quarterly reports:

Completing Carrier Reports

- a. A list of toll-free and access numbers dialed from each of the payphone service provider's payphones and the ANI for each payphone;
- b. The volume of calls for each number identified in "a" above that were completed by Qwest;
- c. The name, address, and phone number of the person or persons responsible for handling Qwest's payphone compensation; and
- d. The CIC of all facilities-based long distance carriers that routed calls to Qwest, categorized according to the list of toll-free and access code numbers identified in "a" above.

Intermediate Carrier Reports – Intermediate carrier reports are not created by QC. Per Appendix C of the Third Payphone Order, QC is not a facilities-based long distance carrier that switches payphone calls to other facilities-based long distance carriers.

7. Qwest has developed and implemented procedures and controls internally or through Billing Concepts to identify, respond to, and resolve disputes.
8. Qwest has developed and implemented controls around the payphone tracking process to ensure the number of payphone records that fall-out of the process are insubstantial.
9. Qwest has developed a process and business rules that accurately identify:
 - a. Payphone originated calls – see number 1 above for the criteria used by Qwest for identifying payphone traffic.
 - b. Completed payphone calls that are compensable to the payphone service providers – compensable payphone calls are determined by matching the ANI list received by Billing Concepts to the population of payphone records extracted from CRIS billing and AMA history records.
 - c. Payphone calls that are incomplete or otherwise non-compensable – records that do not meet the criteria stated in “b” above are identified as incomplete or non-compensable.
 - d. The payphone service providers to which Qwest owes compensation - the identities of the payphone service providers are determined by the reliance on an ANI list provided by Billing Concepts. The ANI list provides the information required for identifying those payphone service providers Qwest is responsible for compensating. The ANI information is the only information needed from the payphone service provider (via Billing Concepts) in order to compensate them.

Qwest noted the following exceptions to its compliance with this payphone audit requirement:

- Due to a faulty indicator in the Central CRIS payphone process, Qwest underpaid some PSPs for the 3rd Quarter of 2004. This indicator allowed some compensable calls to be bypassed. Qwest fixed the indicator issue on January 17, 2005 and resent the missing data to its clearinghouse. Qwest has made additional payments, plus interest for late payments, to all the affected PSPs.
- From the 3rd Quarter of 2004 through the 2nd Quarter of 2005, Qwest overpaid for calls where Qwest was not the completing carrier.
- For the 3rd Quarter of 2004, the 4th Quarter of 2004, and the 1st Quarter of 2005, Qwest overpaid on ANIs belonging to FSH. FSH is separately

compensated and should be exempt from DAC for all calls that originate from an FSH-owned coin-phone and are billed to a QC retail end-user.

- For the 1st Quarter of 2005, Qwest did not pay the PSPs for March 2005 payphone data. Qwest will include the March 2005 payphone data in the 2nd Quarter 2005 payment with interest.

As of August 23, 2005 the Company asserts that the following change to the QC payphone data structure was made. This change has no material impact on compliance with the Order during the Engagement Period.

- Beginning in the 3rd Quarter of 2005, Qwest is updating its payphone process to validate the terminating carrier for in-collect and out-collect calls. Two new data fields were added to the data structure. These two fields will determine whether Qwest is the terminating carrier for in-collect and out-collect calls. This new process will be effective for the 3rd Quarter 2005 reports.

August 23, 2005

Qwest Corporation
By: 
Carla Stewart
VP - Finance